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**INDIANA UTILITIES CORPORATION**

**Corydon, Indiana**

**INDIANA UTILITY REGULATORY COMMISSION**

**Cause No. 43520**

**SUPPLEMENTAL SETTLEMENT TESTIMONY AND EXHIBITS OF**

**DUANE C. MERCER**

**FILED**

**NOV 14 2008**

**INDIANA UTILITY  
REGULATORY COMMISSION**

1                                   **INDIANA UTILITIES CORPORATION**  
2   **Corydon, Indiana**

3  
4                                   **IURC Cause No. 43520**

5  
6                                   **Supplemental Testimony of**  
7   **Duane C. Mercer**  
8  
9

10  
11  
12   **Q. 1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE RECORD.**

13   A.     My name is Duane C. Mercer and my business address is One American Square, Suite 2600,  
14           Indianapolis, Indiana 46282.  
15

16   **Q. 2. ARE YOU THE SAME DUANE C. MERCER WHO PREVIOUSLY FILED**  
17           **TESTIMONY AND EXHIBITS IN THIS MATTER?**

18   A.     Yes, I am.  
19

20   **Q. 3. HAVE YOU PARTICIPATED IN DISCUSSIONS WITH THE OFFICE OF UTILITY**  
21           **CONSUMER COUNSELOR ("OUCC") RELATED TO THE ISSUES OF THIS**  
22           **CAUSE?**

23   A.     Yes, I have.  
24

25   **Q. 4. HAVE THE PARTIES REACHED A RESOLUTION OR COMPROMISE ON ANY**  
26           **OF THOSE ISSUES?**

27   A.     Yes. The Petitioner and the OUCC ("Parties") have resolved all of the issues in this case and  
28           entered a Stipulation and Settlement Agreement (the "Settlement"). I have attached an  
29           unexecuted copy of that Settlement here as Petitioner's Exhibit 1.

1  
2 **Q. 5. MR. MERCER, HAVE YOU PREPARED NEW ACCOUNTING AND FINANCIAL**  
3 **EXHIBITS WHICH NUMERICALLY DESCRIBE AND REFLECT THE TERMS OF**  
4 **THIS SETTLEMENT?**

5 A. Yes, I have attached here Exhibit DCM 1 Revised, which are revised Exhibits C, D, and E and  
6 revised Schedules C-1, C-2, and C-3 which reflect the accounting results and financial terms  
7 anticipated from the parties' agreement other than the effect of any true up due to the final  
8 interest rate for long-term debt described below.

9  
10 **Q. 6. MR. MERCER, PLEASE DESCRIBE FOR THE COMMISSION THE ISSUES THAT**  
11 **HAVE BEEN RESOLVED BY THE PARTIES.**

12 A. Perhaps the easiest way to understand what issues have been resolved in this case is to  
13 recognize that the Petitioner initiated this case on June 17, 2008. On August 7, 2008,  
14 Petitioner filed the testimony and exhibits of various witnesses which constituted its direct  
15 case in chief. In coordination with its Necessity Certificate case (Cause No. 43514),  
16 Petitioner's witnesses described borrowing long term debt for permanent financing of new  
17 utility plant for the proposed expansion areas during this period, and up to early October,  
18 various natural gas utility rate cases were resolved by Commissioner orders. Within this  
19 context and following the exchange of information in this case, the Parties were able to  
20 resolve all issues.

21  
22 Petitioner's proposed Proforma adjustments to its test year results related to revenue, payroll,  
23 pension, rate case and NTA expenses, postage, charitable contributions, accounting fees,  
24 billing system maintenance, transportation costs, payroll taxes, IURC fee, utility receipt taxes,

1 and the methodology of calculating state and federal income taxes. The OUCC, following its  
2 review of Petitioner's books and records, accepted many of Petitioner's adjustments.  
3 However, the OUCC expressed some concerns with respect to payroll and corresponding  
4 pension and FICA expenses, rate case expense, transportation costs, the proposed property tax  
5 rate, the amortization period for recovery of rate case and NTA proceeding expenses and the  
6 proposed return on equity capital. Following extensive negotiation and work towards finding  
7 reasonable compromises, the Petitioner and the OUCC were able to resolve all these issues.  
8 That resolution has been reflected in the Settlement.  
9

10 **Q. 7. MR. MERCER, WOULD YOU BRIEFLY DESCRIBE THE NATURE OF THE**  
11 **CONCERNS OF THE OUCC WITH RESPECT TO THE PETITIONER'S PREFILED**  
12 **ADJUSTMENTS AND THE RESOLUTION REACHED?**

13 A. As to payroll, the OUCC basically questioned the timing of payroll increases. The OUCC's  
14 concerns appear to flow from the amount of increases occurring as of the end of the test year  
15 and the proforma adjustment. Petitioner noted that the actual payroll was appropriate for this  
16 utility, particularly in light of the payroll for similar utilities. However, Petitioner agreed with  
17 the OUCC that recovery of all payroll in the current economic conditions may appear  
18 inappropriate. Thus, the parties agreed for purposes of these rates to reduce a portion of the  
19 increased payroll, net of capitalization. This Agreement reduces Petitioner's adjustment 3(a)  
20 from \$59,559 to \$48,161.  
21

22 With respect to pension and FICA, (Petitioner's original adjustments 3(b) and 6(a)), the  
23 OUCC's concern related to the flow through effect of its different payroll adjustment. With

1 an agreement on payroll, the Parties agreed that corresponding changes in these flow through  
2 adjustments should also occur.

3 With respect to rate case expense, the rate case amortization period for recovery, and the  
4 expense associated with the NTA, the OUCC believed that in light of settlement, a reduction  
5 in Petitioner's proposed rate case expense was appropriate and that a four year period for  
6 amortization of these expenses would be warranted in light of other recent natural gas rate  
7 cases. Petitioner agreed to both of the OUCC's conceptual suggestions, and following further  
8 negotiation, rate case expense recovery was reduced to \$120,000 and the Petitioner agreed to  
9 a four year amortization as contained in adjustment 3(c).

10  
11 The proposed increase to transportation costs was essentially a recognition of the recent  
12 significant increase in the price of gasoline for Petitioner's vehicles. The OUCC suggested  
13 that the price of gasoline has fallen since Petitioner's prefilings and proposed some recognition  
14 of that change by using average test year gasoline prices rather than adjusting them further.  
15 The Petitioner agreed with the OUCC's proposal and has used the average price per gallon  
16 Petitioner experienced during the test year for its proforma expense as reflected in adjustment  
17 4(b).

18  
19 With respect to property taxes, Petitioner anticipated a change in both its property tax rate and  
20 increased plant values. The OUCC during negotiation noted that any new property tax rate  
21 had not as yet been set and likely would not be fixed known and measureable within the  
22 period provided for in the Prehearing Conference Order (12-31-08). Petitioner conceded the  
23 OUCC's point as to the property tax rate and agreed that Petitioner's proforma property tax  
24 should be calculated using the updated value of plant as of September 30, 2008, times the

1 known property tax rates of 2008 for all taxable property included in rate base shown on  
2 adjustment 6(b).

3  
4 On adjustments related to taxes, the IURC fee and bad debt, the parties recognized that  
5 changes to Petitioner's proposed revenue requirement would have a flow through effect on  
6 various taxes, the IURC fee, and bad debt. The parties have agreed that the Settlement  
7 schedules properly account for those flow through effects.

8  
9 **Q. 8. MR. MERCER, WOULD YOU DESCRIBE EACH OF YOUR ATTACHED REVISED**  
10 **EXHIBITS AND SCHEDULES AND EXPLAIN HOW AND WHY THEY DIFFER**  
11 **FROM THE EXHIBITS AND SCHEDULES PREVIOUSLY FILED IN THIS CAUSE.**

12 A. **Revised Exhibit C** is the Proforma Operating Income Statement as of December 31, 2007. It  
13 reflects the results of operations under assumptions changed by the settlement. The column  
14 entitled "December" reflects the actual per book results of Petitioner's operations for the test  
15 year. The column entitled "Proforma Present Rates" reflects the results of operations after the  
16 consideration of Settlement. The column entitled "Proforma Proposed Rates" reflects the  
17 projected results of operations based upon the agreed overall increase in rates of 5.85%.

18 **Schedule C-1** represents the detail of adjustments to the test year based on fixed, known and  
19 measurable information and negotiation with the Office of Utility Consumer Counselor in  
20 determining the proper test year level of revenue as well as the appropriate ongoing level of  
21 expenses to be incurred within the twelve months after the test year in this cause. The  
22 schedules here represent full and final settlement on all accounting issues in this case.

1       **Schedule C-2** is our Proforma Proposed Rate adjustments in accordance with the settlement  
2       agreement. **Schedule C-3** is the calculation of our annual Operating Revenue given the 5.85%  
3       rate increase.

4       **Exhibit D** reflects the calculation of the Original Cost Rate Base at the cutoff date of  
5       September 30, 2008, and differs due to the update of actual plant costs through the cutoff date  
6       and the calculation of the working capital after the settlement agreements of all operating  
7       expense adjustments. I should note that Petitioner's original direct case was filed about two  
8       months before the cutoff date established in the Prehearing Conference Order as to Utility  
9       plant in service and reflected various estimates as of the date of Petitioner's prefiled direct  
10      case.

11      **Exhibit E** summarized the Cost of Capital calculation for Petitioner incorporating our  
12      agreement of a 10.3% return on common equity, and the inclusion of long term debt. This  
13      results in an overall Cost of Capital of 8.66%.

14  
15      **Q. 9. MR. MERCER, GIVEN YOUR EXTENSIVE PRIOR TESTIMONY IN VARIOUS**  
16      **CAUSES TO THE COMMISSION ON ACCOUNTING AND FINANCIAL ISSUES,**  
17      **DO YOU BELIEVE THIS SETTLEMENT IS REASONABLE?**

18      A. Recognizing that this settlement is a compromise on a variety of issues on which the parties  
19      here took different positions, then, yes, I believe the settlement is reasonable. I have often  
20      read in various Orders from this Commission that regulation of utilities requires a balancing  
21      of interests between the investors who provide capital and the customers that desire service at  
22      reasonable rates. Here representatives of both of those parties offer a settlement that provides  
23      such a balance. The Petitioner gets an opportunity to increase its revenue through increased  
24      rates, giving its investors a better opportunity than recent experience to earn a reasonable

1 return. And the customers will continue to get good service at very reasonable rates. In my  
2 opinion, that balance supports the conclusion that the settlement is reasonable.  
3

4 **Q. 10. ARE YOU SUGGESTING THAT 10.3% RETURN ON EQUITY IS A REASONABLE**  
5 **RETURN FOR THIS PETITION?**

6 A. Not exactly. I have suggested a higher return in my previously filed testimony. However, I  
7 recognize that the OUCC was prepared to propose a lower return. Thus, I believe the  
8 settlement, including the return on equity as shown, is a reasonable compromise between  
9 those two positions and it avoids the cost associated with further litigation of this issue.  
10 Further, I believe the resulting return is supported by the evidence, as well as recent orders of  
11 this Commission on similar small natural gas utilities.  
12

13 **Q. 11 MR. MERCER, YOU NOTE ABOVE THE INCLUSION OF LONG TERM DEBT.**  
14 **HAVE THE PARTIES ALSO AGREED TO THE PROPOSAL OF PETITIONER**  
15 **REFLECTED IN ITS DIRECT CASE THAT THE ISSUANCE OF LONG TERM**  
16 **DEBT IS APPROPRIATE?**

17 A. Yes. Further, following extensive discussions, the parties agree that Petitioner should be  
18 authorized to borrow \$750,000 for a ten year period at a fixed interest rate not to exceed  
19 6.50%.  
20

21 **Q. 12 MR. MERCER, IF THE PARTIES INCLUDED A 6.00% IN THE COST OF CAPITAL**  
22 **CALCULATION, WHY DOES THE SETTLEMENT PROPOSE LONG TERM DEBT**  
23 **UP TO 6.50%?**



1 A. The interest rate will actually be set as the loan request is being processed just prior to closing  
2 as described by Mr. Czeschin. Unfortunately with the current credit problems across the  
3 country the interest rate, which is based on LIBOR, has fluctuated since Petitioner filed its  
4 direct case by 125 basis points and may continue to fluctuate. Since closing cannot be  
5 established until an order has been issued by the Commission, the parties have attempted to  
6 set an interest rate cap at which a fixed interest rate would still be reasonable. While the  
7 parties believe a fixed interest rate up to 6.50% is reasonable, we have agreed to use 6.00% in  
8 light of recent reduction in LIBOR for purposes of our cost of capital calculation subject to a  
9 true-up.  
10

11 **Q. 13 MR. MERCER, WHAT DOES LIBOR REPRESENT?**

12 A. LIBOR is the interest rate that many banks charge one another for interbank loans. The  
13 London Interbank Offered Rate ("LIBOR") is a general reference for quotes on long term  
14 debt at fixed interest rates and is the reference used by Regions Bank with Petitioner.  
15

16 **Q. 14 HAS A RATE BEEN QUOTED BY REGIONS BANK TO PETITIONER?**

17 A. Yes. Regions Bank, has offered Petitioner a fixed interest rate of LIBOR plus 250 basis  
18 points. As Petitioner was preparing its testimony in early August, LIBOR was approximately  
19 3.50%, making the fixed rate 6.00% as reflected in Petitioner's direct case. As of October,  
20 LIBOR was 4.50%. In a letter from Regions Bank to Petitioner dated October 10, 2008,  
21 Regions proposed a fixed rate of 7.25%.  
22

23 **Q. 15 DID THE VOLATILITY IN THE LIBOR BASED FIXED INTEREST RATE CAUSE**  
24 **THE SETTLEMENT TO BE SET AT A MAXIMUM RATE?**

1 A. Yes. The Petitioner and the OUCC recognized the appropriateness of using a fixed interest  
2 rate for these long lived capital improvements if a reasonable rate could be obtained. We  
3 have agreed that anything up to 6.50% would be a reasonable fixed interest rate. Thus the  
4 settlement references authority up to 6.50% and an exchange of information for purposes of  
5 truing up rates.  
6

7 **Q. 16 WHAT IS THE IMPACT ON THE REVENUE REQUIREMENT FOR PETITIONER**  
8 **IF THE FINAL INTEREST RATE IS 6.50% INSTEAD OF 6.00%?**

9 A. For each 0.1% increase, the impact is approximately \$500. Thus if the final rate is 6.50%,  
10 Petitioner would need to increase revenue to \$363,709 from the \$361,712 increase proposed  
11 using a 6.00% interest rate.  
12

13 **Q. 17 HAS THE PETITIONER INVESTIGATED VARIABLE RATES?**

14 A. Yes. However, while the current variable rate is lower than the current fixed rate, the variable  
15 rates offered Petitioner can change monthly. In light of current market conditions, the Parties  
16 agree that a variable rate is not the better approach, if a reasonable fixed rate can be obtained.  
17

18 **Q. 18 MR. MERCER, WHAT IS THE AMOUNT TO BE BORROWED AND OVER WHAT**  
19 **PERIOD OF TIME?**

20 A. The amount to be borrowed is \$750,000 as described by Petitioner's direct case. The term  
21 would be a maximum of 10 years rather than a maximum of 15 years as described in  
22 Petitioner's direct case.  
23

1 **Q. 19 WHY DID THE TERM OF YEARS CHANGE FROM THAT ORIGINALLY**  
2 **DESCRIBED?**

3 A. As Petitioner was putting its direct case together, the credit market problems had not as yet  
4 emerged. With the problems faced by numerous banks across the country, Region required  
5 additional collateral pledged by Petitioner and its largest stockholder. Petitioner was required  
6 to pledge a portion of its retained earnings held as equity on its balance sheets. Its largest  
7 stockholder was required to provide a personal guarantee. With this additional collateral,  
8 Petitioner proposes using only a ten year note.

9  
10 **Q. 20 IS REGIONS BANK FACING THE SIGNIFICANT FINANCIAL TROUBLE THAT**  
11 **SOME OTHER BANKS SUCH AS NATIONAL CITY BANK HAVE RECENTLY**  
12 **FACED?**

13 A. While I don't have any non-public information, I do not believe Regions Bank has the same  
14 underlying problem of National City Bank relative to residential foreclosures. Petitioner has  
15 been advised that Regions is prepared to make this loan once Petitioner is authorized to issue  
16 long term debt.

17  
18 **Q. 21. BASED UPON YOUR LONG EXPERIENCE IN MATTERS BEFORE THIS**  
19 **COMMISSION, DO YOU BELIEVE THE SETTLEMENT IS REASONABLE?**

20 A. Yes, I do. The Settlement is based upon a thorough review of information related to this  
21 Petitioner and extensive discussions between the Parties, not only as to the positions taken,  
22 but also as to why those positions were taken. The Settlement is the result of compromise  
23 between the positions that each had taken.

1 **Q. 22. DOES THIS SETTLEMENT ALSO INCLUDE A REASONABLE ALLOCATION OF**  
2 **THE REVENUE REQUIREMENT TO CUSTOMER CHARGES AND CUSTOMER**  
3 **CLASSES?**

4 A. Yes, I believe it does. Further, I would note that Petitioner's witness Heid describes this  
5 allocation in greater detail.  
6

7 **Q. 23 MR. MERCER, DO YOU RECOMMEND THAT THIS COMMISSION ACCEPT**  
8 **THIS SETTLEMENT AS FILED?**

9 A. Yes, I do.  
10

11 **Q. 24. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY AND EXHIBITS**  
12 **IN THIS CAUSE?**

13 A. Yes, it does.  
14

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**PETITIONER'S EXHIBIT 1**

**STATE OF INDIANA**

**INDIANA UTILITY REGULATORY COMMISSION**

<b>PETITION OF INDIANA UTILITIES</b>	)	
<b>CORPORATION FOR AUTHORITY TO</b>	)	
<b>CHANGE ITS RATES, CHARGES,</b>	)	
<b>TARIFFS, RULES, AND REGULATIONS;</b>	)	<b>CAUSE NO.: 43520</b>
<b>AND FOR APPROVAL OF NEW RATES,</b>	)	
<b>CHARGES, TARIFFS, RULES, AND</b>	)	
<b>REGULATIONS FOR GAS SERVICE</b>	)	
<b>RENDERED TO ITS CUSTOMERS AND</b>	)	
<b>FOR AUTHORITY TO ISSUE LONG</b>	)	
<b>TERM DEBT.</b>	)	

**STIPULATION AND SETTLEMENT AGREEMENT**

Indiana Utilities Corporation (hereinafter "Petitioner") and the Indiana Office of Utility Consumer Counselor (hereinafter "OUCC") have met through their respective representatives for purposes of discussing the evidence of record and the information gained through the discovery process. The result of such discussions between the Petitioner and the OUCC (hereinafter collectively "the Parties") is a settlement of all issues in this Cause, as described by this Stipulation and Settlement Agreement (hereinafter the "Settlement").

The Parties believe that the evidence of record supports the terms of this Settlement. The Parties acknowledge that the terms and conditions of this Settlement are a result of negotiations between the Parties relative to the position each has taken or would take in further proceedings in this Cause. In the interest of efficiency, saving the limited resources of the regulatory bodies involved, and recognizing the reasonableness of the results produced by this Settlement, the Parties herein stipulate and agree as follows:

1. **Rate Increase.** Based on the test year ending December 31, 2007, as adjusted for matters that are fixed, known, and measurable, and occurring within 12 months of the test year

and a rate base cutoff date of September 30, 2008, Petitioner proposed in its direct case that its operating revenue should be increased exclusive of the cost of gas by \$444,057. The Parties now agree that Petitioner should be authorized to increase its base rates and charges for purposes of natural gas service to its various customers to produce additional annual operating revenue, exclusive of the cost of gas, by \$361,712. This represents an increase of approximately 5.85% over adjusted test year operating revenue, including the cost of gas.

2. **Proforma Adjustments.** Petitioner proposed in its direct case various adjustments to its test year results as set forth numerically in Petitioner's Exhibit DCM-1, Exhibit C, and accompanying schedules. The proforma adjustments were further described by Petitioner's witnesses Mercer and Mann. The proposed proforma adjustments related to both operating revenue and operating expenses, and included: adjustments to eliminate GCA revenues recovering all gas commodity costs through the GCA; normalization of weather; recognition of both the addition and loss of certain customers; increases in payroll; flow through changes to pension; recovery of rate case expense and expenses associated with the NTA; changes in the IURC fee; increases in postage; increases in transportation costs; removal of charitable contributions; reduction in ongoing accounting fees; recovery of maintenance expenses associated with new billing system; increases in depreciation relative to an increased rate base; recovery of appropriate bad debt expense; recovery of the appropriate IURC fee; recovery of increased FICA taxes due to payroll increases; recovery of property tax increases; and recovery of various other taxes associated with Petitioner's proposed increased revenue, including utility receipts tax, state income tax, and federal income tax. During negotiations, as referenced in the OUCC's evidence and described by its witness Grosskopf, the OUCC suggested different adjustments relating to various proposals described in Petitioner's direct case

in chief, including those related to payroll and a corresponding pension expense and FICA tax expense; transportation costs associated with increases related to the price of gasoline; the tax rate for property taxes; the amortization period for recovery of rate case and NTA expense; a lower return on equity for Petitioner's cost of capital; and the corresponding impact of these different adjustments and proposals on various taxes; the IURC fee and bad debt expense. The Parties have resolved all of these differences as follows:

**Payroll Expense.** The Petitioner, as part of its direct case, proposed to adjust its operation and maintenance expenses for purposes of annualizing increases in payroll net of the amount of payroll capitalized by \$59,559. The OUCC, following its review of Petitioner's books and records and Petitioner's responses to both formal and informal discovery, believes Petitioner's payroll increase recovered in rates should be \$48,161. While the OUCC recognizes that the Petitioner's management may determine actual payroll, it believes recovery of such increases from rates should be limited due in part to the current economic conditions in Petitioner's service territory. In recognition of the OUCC's concerns, the Petitioner has agreed to the OUCC's proposed payroll adjustment of \$48,161 as reflected in the Revised Schedule C-1, Adjustment 3(a).

**Pension Expense.** The Parties have agreed to the method of calculating the pension expense and that such expense will change based on agreement on payroll expense. The Petitioner initially



proposed in its direct case that the flow through effect of its payroll adjustment would be an increase in pension expense of \$14,471. With the agreed payroll expense reflected above, the Parties now agree that the appropriate flow through pension expense is \$10,834 as reflected on Revised Schedule C-1, Adjustment 3(b).

**FICA.** As with pension expense, FICA expense is a flow through expense based on annual payroll expense. The Parties have agreed to the method of calculation and the appropriate tax rate. With the above changes in payroll expense, the Parties agree that Petitioner's proposed increase in FICA expense of \$4,556 should be reduced to \$3,684 as reflected on Revised Schedule C-1, Adjustment 6(a).

**Transportation Costs.** Petitioner in its direct case proposed an increase to its test year expenditures for transportation costs associated with the increased price of gasoline. The OUCC, while recognizing that the price of gasoline was at or above the level suggested by Petitioner's direct case in August of 2008, believes this settlement should recognize that gasoline prices have fallen. The OUCC has proposed that Petitioner use the average gasoline price experienced by Petitioner during the test year as its proforma expense. The Petitioner, in recognition of the volatility of gasoline prices, acknowledges that the test year average is a reasonable average to use for Petitioner's proforma transportation costs as reflected on Revised Schedule C-1, Adjustment 4(b).

**Rate Case Expense.** The Petitioner, in its direct case, proposed recovery of \$145,000 in rate case expense. Petitioner further indicated that this rate case expense would increase if additional experts were needed for cost of capital or cost of service rebuttal testimony. The OUCC proposed a reduction in the recovery of rate case expense in order to recognize that a settlement between the Parties had occurred without further litigation. The Parties have now agreed that recovery of \$120,000 in rate case expense is a reasonable amount for recovery on Petitioner's revenue requirement as reflected on Revised Schedule C-1, Adjustment 3(c).

**Rate Case and NTA Expense Amortization.** The Petitioner proposed to recover the cost it incurred in agreed rate case expense and in establishing a normal temperature adjustment ("NTA") over a three-year time period, noting the expected life of these rates. The OUCC suggested a four-year amortization period, consistent with other recent natural gas utility rate cases. Following discussion between the Parties, the Parties have agreed that a four-year amortization period is reasonable, and should be used in calculating Petitioner's proforma revenue requirement as reflected on Revised Schedule C-1, Adjustment 3(d).

**IURC Fee.** The Parties agreed to update the IURC fee based on the new 2008/2009 IURC fee rate of 0.0012039930 as reflected on

Revised Schedule C-1, Adjustment 3(c) and Schedule C-2, Adjustment (B)..

**Property Tax.** The Petitioner proposed an increase in its property tax expense by including the updated value of utility plant in service and including an estimated increase in the property tax rate. The OUCC, while in an agreement with the updated plant value and the method Petitioner used in calculating property tax, suggested that the increase in the property tax rate was not fixed, known and measurable. The OUCC suggested that the 2008 tax rate be applied instead. The Petitioner agrees with the OUCC's position. The Parties suggest that the property tax for this Petitioner on a proforma basis be that reflected on Revised Schedule C-1, Adjustment 6(b).

**Taxes, IURC Fee and Bad Debt Expense.** The Parties stipulate and agree that adjustments to Petitioner's present operating revenue and expenses will cause changes in various taxes, the IURC fee, and bad debt expense. The Parties are in agreement as to the methodology of calculating each of these expenses and recognize that the resulting calculation will flow through to the revenue requirement required. The Parties agree that taxes, IURC fee and bad debt expense reflected on the Revised Schedules C-1 and C-2 are reasonable and should be included in the Commission's final order.

3. **Rate Base.** As of its direct case filing of August 7, 2008, the Petitioner proposed a rate base of \$4,534,823. This rate base was calculated using the original cost value of utility plant in service as of December 31, 2007, plus various estimated additions through the cutoff date of plant of September 30, 2008, less accumulated depreciation. Following an update by Petitioner for actual utility plant as of September 30, 2008, and the OUCC's review of Petitioner's records, the Parties now agree that the value of Petitioner's used and useful utility plant in service as of September 30, 2008, less accumulated depreciation, is \$4,739,367. Based on the agreement of the Parties as to various operating expenses, the Parties agree that the working capital component of Petitioner's rate base for purposes of setting rates should be \$119,389 and the materials and supplies component should be \$32,011. The result of this settlement is that the Parties agree that Petitioner's rate base calculated using an original cost basis is \$4,890,767 as reflected on Revised Exhibit D. Further, the Parties agree that this rate base should be used to determine an appropriate proforma net operating income for this Petitioner.

4. **Cost of Capital.** The Petitioner, through its direct case, and the OUCC, during the course of negotiation, each proposed a cost of capital based upon the same elements, including: common equity, customer deposits, long term debt, Post ITC and deferred taxes. The only area of initial disagreement related to the appropriate cost of common equity to be used in the cost of capital calculation. Originally, Petitioner proposed 10.90% as the cost of common equity. The OUCC, during negotiations, suggested a cost of common equity significantly lower. Following discussion and exchange of information, the Parties have now agreed that 10.30% cost of common equity would provide a reasonable return on Petitioner's equity component as part of Petitioner's capital structure.

As part of its direct case, the Petitioner also proposed inclusion of the cost of long term debt within the capital structure at 6.00% during negotiations noting the reasonableness of using long term debt to finance the cost of extending its facilities in a proposed Necessary Certificate expansion. The Commission authorized that expansion after Petitioner filed its direct case in this proceeding. The Petitioner and the OUCC have now reviewed Petitioner's opportunities for long term debt considering both fixed and variable options in light of the current credit market. The Parties believe that Petitioner can obtain a fixed interest rate loan and should do so if Petitioner can obtain the same at or below 6.50% interest for a ten year term for the estimated amount associated with construction of facilities in Petitioner's Necessity Certificate expansion. Thus, the Parties agree that Petitioner should be authorized to amend its original Petition in keeping with the evidence of this cause, and to borrow up to \$750,000 for a ten year period at an interest rate not to exceed 6.50%. The Parties agree that use of a 6% interest for the Petitioner's capital structure for purposes of setting rates is an appropriate initial estimate. Petitioner agrees to provide information to the OUCC within ten days following a closing on such long term debt as to the actual interest obtained. The Parties agree that they will meet within ten (10) days after such information is exchanged to discuss any further changes necessary to true up or down Petitioner's rates in light of the actual interest rate at closing and thereafter make appropriate filings with the Commission.

In light of the above agreements, the following numerically represents a reasonable capital structure for this Petitioner for purposes of determining a reasonable overall return.

Description	Amount	Percent of Total	Cost	Weighted Cost
Common Equity	\$7,701,673	79.04%	10.30%	8.14%
Customer Deposits	\$ 62,931	0.65%	5.00%	0.03%
Long Term Debt	\$ 750,000	7.70%	6.00%	0.46%
Post ITC	\$ 33,534	0.34%	9.89%	0.03%
Deferred Taxes	<u>\$1,196,026</u>	<u>12.27%</u>	0.00%	<u>0.00%</u>
Total	\$9,744,161	100%		8.66%

5. **Proforma Net Operating Income.** Based upon the agreement of the Parties as to Petitioner's rate base and Petitioner's cost of capital; and recognizing the Parties' agreement as to other elements of Petitioner's revenue requirement; the Parties agree that Petitioner should be authorized to earn 8.66% on its invested original cost rate base of \$4,890,767, thus authorizing Indiana Utilities the opportunity to earn a net operating income of \$423,540.

6. **Cost of Service/Tariffs.** While Petitioner notes some loss of customers and some addition of customers, it does not believe that this significantly changes its customer class mix. The Petitioner proposes to increase Petitioner's existing rates essentially across the board on all customer classes, change Petitioner's existing monthly customer charges, and offer a new school transportation tariff. Petitioner proposes to change its existing monthly customer charge per meter per month from \$9 to \$10 for general service customers, which includes Petitioner's residential, small commercial and small public authority customers. Petitioner also proposes to change its large commercial customer charge from \$50 to \$55, industrial sales customer charge from \$375 to \$400, general gas transportation customer charge from \$375 to \$400, and large

volume gas transportation customer charge from \$800 to \$900. School transportation will be offered under Petitioner's new rate 6 and include a monthly customer charge of \$105 per meter per month. Following the OUCC's review of these proposed allocations, recognizing that Petitioner's proposals are consistent with similar "customer charges" of other Indiana gas utilities, and consideration of Petitioner's school transportation proposal; the OUCC agrees that Petitioner's proposed tariffs are reasonable and should be authorized.

7. **Settlement Schedules.** The Parties agree that the Revised Exhibits C, D, and E, along with Schedules C-1, C-2 and C-3, described in further detail by the supplemental testimony of Duane C. Mercer, properly describes the various elements of the Parties' final settlement. Further, the Parties believe that such revised Exhibits and Schedules should be used by the Commission to enter a final order in this Cause.

8. **Request for Prompt Approval by the Commission.** The Parties acknowledge that a significant motivation for the Petitioner to enter into this Settlement is the expectation that a final order will be issued promptly by the Commission authorizing increases in its rates and charges as reflected herein. The Parties have spent significant time and effort to resolve the issues raised in this case. However, the Parties also recognize the insufficiency of Petitioner's current rates, as reflected by the prefiled evidence. Under these circumstances, the Parties to this Settlement jointly request prompt approval of this Settlement by way of a final order of the Commission.

9. **Sufficiency of the Evidence.** The Parties believe that the Petitioner's direct testimony and exhibits, the OUCC's testimony in support of settlement agreement, the Petitioner's supplemental testimony and exhibits, along with this Stipulation and Settlement Agreement, constitute substantial evidence sufficient to support this Settlement and provide an

adequate evidentiary basis upon which the Commission may make findings of fact and conclusions of law necessary to issue a final order adopting and approving this Settlement.

10. **Settlement Effect, Scope, and Approval.** The Parties acknowledge and agree as follows:

(a) This Settlement is conditioned upon and subject to its acceptance and approval by the Commission in its entirety without change or condition that is unacceptable to any party. Each term of the Settlement is in consideration and support of each and every other term.

(b) This Settlement is the result of compromise by the Parties within the settlement process. Neither the making of this Settlement nor any of the individual provisions or stipulations herein shall constitute an admission or waiver by any Party in any other proceeding; nor shall they constitute an admission or waiver in this proceeding if the Settlement is not accepted by the Commission. This stipulation shall not be used as precedent in any other proceeding or for any other purpose, except to the extent necessary to implement or enforce its terms.

(c) The communications and discussions among the Parties, along with the materials produced and exchanged during the negotiation of this Settlement, relate to offers of settlement and compromise, and as such, all are privileged and confidential. Such material cannot be used in this or any other proceeding without the agreement of the Parties herein.



(d) The undersigned represent and agree that they are fully authorized to execute this Settlement on behalf of their designated clients who will thereafter be bound by this Settlement.

(e) The Parties hereto will either support; or not oppose on rehearing, reconsideration, and/or appeal; an IURC order accepting and approving this Settlement in accordance with its terms.

Accepted and agreed this \_\_\_\_ day of November, 2008.

INDIANA UTILITIES  
CORPORATION

INDIANA OFFICE OF UTILITY  
CONSUMER COUNSELOR

By: \_\_\_\_\_  
Its Counsel of Record

By: \_\_\_\_\_  
Its Counsel of Record

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**EXHIBIT DCM 1 REVISED**

INDIANA UTILITIES CORPORATION

Corydon, Indiana

**Pro-Forma Operating Income Statement  
At Pro-Forma Present and Proposed Rates  
For the 12 Months Ended December 31, 2007**

Increase Required: 5.85%

	December	Adjustments	Ref	Pro-Forma Present Rates	Adjustments	Ref	Pro-Forma Proposed Rates
<u>Operating Revenues</u>							
Gas Sales	\$ 5,331,514	\$ (3,669,179)	(1)	\$ 1,662,335	\$361,712	(A)	\$ 2,024,047
Other Gas Revenues	25,143			25,143			25,143
Total Operating Revenues	<u>5,356,657</u>	<u>(3,669,179)</u>		<u>1,687,478</u>	<u>361,712</u>		<u>2,049,190</u>
<u>Operating Expenses</u>							
Natural Gas Purchased	3,711,740	(3,711,740)	(2)	-			-
Other Operation & Maintenance	901,691	53,420	(3&4)	955,111	1,356	(B & C)	956,467
Depreciation & Amortization	226,814	58,036	(5)	284,850			284,850
Taxes Other Than Income Taxes	147,375	(32,801)	(6)	114,574	5,064	(D)	119,638
Income Taxes	185,270	(61,590)	(7)	123,680	141,015	(E)	264,695
Total Operating Expenses	<u>5,172,890</u>	<u>(3,694,675)</u>		<u>1,478,215</u>	<u>147,435</u>		<u>1,625,650</u>
Net Operating Income	<u>\$ 183,767</u>	<u>\$ 25,496</u>		<u>\$ 209,263</u>	<u>\$ 214,277</u>		<u>\$ 423,540</u>

**INDIANA UTILITIES CORPORATION**  
**Corydon, Indiana**

**DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS**

**(1) REVENUE ADJUSTMENTS**

(a)

Decrease in "Operating Revenue" from the elimination of GCA Revenue included in the rate case.

\$ (2,466,997)

(b)

To adjust "Operating Revenue" for changes in the Base Cost of Gas Revenues and to set the Base Cost of Gas to zero.

	Pre NTA (Jan - Apr)	Post NTA (May - Dec)
Test Year Sales - DTH	217,724	184,302
Weather Normalization @ Margin Rate- 1 (c)		
New Residential Dth from CTA area - Ave. Revenue Per Customer	2,000	
New volumes from CTA area @ Margin Rate - 1 (e)	-	
Adjusted Test Year Sales-DTH	219,724	184,302
Pro-Forma Cost of Gas	\$ -	\$ -
Less: Unaccounted for and Company Use	-	-
Base Cost of Gas	\$ -	\$ -
New Base Rate Cost of Gas	\$ -	\$ -
Less:		
Prior Base Rate Cost of Gas Cause No. 40965-U - DTH	\$ 5.8510	\$ (0.0909)
Net Change in Base Rate Cost of Gas	(5.8510)	0.0909
Adjusted Test Year Sales - DTH	219,724	184,302
Increase / (Decrease) in Operating Revenues Resulting From the Change in Base Rate Cost of Gas	<u>\$ (1,285,605)</u>	<u>\$ 16,753</u>
		<u>\$ (1,268,852)</u>

INDIANA UTILITIES CORPORATION  
Corydon, Indiana

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(1) REVENUE ADJUSTMENTS CONTINUED

(c)

To Adjust "Operating Revenue" for the normalization of warmer than normal weather.

	Gen Service Heat	Commercial Heat	Total
Sales- DTH	153,992	188,198	
Base Load	26,488	81,544	
Temperature Sensitive Sales	127,504	106,654	
Weather Factor - Warmer Than Normal	14.95%	14.95%	
Increase in Sales - DTH	19,062	15,945	
Last Rate Block - Margin	\$ 2.5968	\$ 2.5820	
Additional Weather Normalization Revenue	\$ 49,500	\$ 41,170	\$ 90,670
Less: NTA Revenue Collected during Test Year			(47,144)
Increase / (Decrease) in Operating Revenue resulting from warmer than normal weather.			<u>\$ 43,526</u>

(d)

To adjust "Operating Revenue" for reduction in sales volume of Transportation customer. \$ (27,911)

(e)

To adjust "Operating Revenue" for increase in Industrial and Residential customers as a result of CTA area expansion. \$ 51,055

Total Adjustment to "Operating Revenues" - Increase / (Decrease) \$ (3,669,179)

INDIANA UTILITIES CORPORATION  
Corydon, Indiana

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(2) NATURAL GAS PURCHASED ADJUSTMENT

To adjust "Natural Gas Purchased" to eliminate the cost of natural gas purchased from base rates.

Test Year Sales - DTH	402,026
Weather Normalization Volumes	35,007
New volumes from CTA area	<u>2,000</u>
Adjusted Test Year Purchases - DTH	439,033
Unaccounted for Gas Percentage-Test Year	<u>0.00%</u>
Pro-Forma Purchased Gas - DTH	-
Anticipated Cost of Delivered System Supply Gas - Per DTH	<u>\$ 10.31</u>
Pro-Forma Cost of Gas	\$ -
Less: Test Year Purchased Gas	<u>3,711,740</u>
Increase / (Decrease) in "Natural Gas Purchased"	<u><u>\$ (3,711,740)</u></u>

INDIANA UTILITIES CORPORATION  
Corydon, Indiana

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(3) OPERATION AND MAINTENANCE EXPENSE ADJUSTMENTS

(a)

To adjust other "Operation and Maintenance" expense for the annualization of payroll and wage increases (Net of Amount Capitalized).

Payroll Adjustment - Increase / (Decrease)	\$ 48,161
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(b)

To Increase "Operations and Maintenance" expense for Pension Contribution based on payroll annualization and increase in wages.

Pension Expense Adjustment - Increase / (Decrease)	\$ 10,834
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(c)

To adjust other "Operation and Maintenance" expense for the amortization of rate case expense.

Estimated Cost of Rate Case	\$ 120,000
Actual Cost of NTA Proceeding	12,935
Estimated Cost of Mailing Notice to Customers	1,250
Total Estimated Cost	134,185
Amortization Period - Years	4
	33,546
Less: Amount included in Test Year	(18,813)
Adjustment - Increase / (Decrease)	\$ 14,733

(d)

To Adjust "Operation and Maintenance" expense to reflect current IURC fee.

Applicable Revenues at Present Rates. (Including GCA Revenue)	\$ 6,187,759
Current IURC Rate	0.001203993
Pro-Forma IURC Fee at Present Rates	7,450
Less: Test Year IURC Fee	2,899
Adjustment - Increase	\$ 4,551

Total Adjustment to "Operation and Maintenance" expense - Increase / (Decrease)	\$ 78,279
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INDIANA UTILITIES CORPORATION  
Corydon, Indiana

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(4) ADMINISTRATIVE AND GENERAL EXPENSE ADJUSTMENTS

(a)

To adjust "Administrative & General" expense for the increased cost of Postage by the U.S. Postal Service in 2007.

Number of pieces of mail	25,271
Increase in postage rate	\$ 0.02

Adjustment Increase / (Decrease) in Postage Expense	\$ 505
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(b)

To adjust "Administrative & General" expense for transportation cost associated with the increase in gasoline prices

Current Gasoline Charge per Gallon	\$ 3.00
Average Gasoline Charge per Gallon During Test Year	3.00

Gallons of Gasoline Purchased in Test Year	7,859
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Transportation Adjustment - Increase / (Decrease)	\$ -
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(c)

To adjust "Administrative & General" expense to remove charitable contributions.

	\$ (8,890)
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(d)

To adjust "Administrative & General" expense for increase / (decrease) in accounting fees.

Pro-Forma Accounting/Auditing Fees	\$ 28,600
Less: Test Year Accounting/Auditing Fees	47,186

Accounting Fees Adjustment - Increase / (Decrease)	\$ (18,586)
--	-------------

(e)

To adjust "Administrative & General" expense for annual maintenance for new billing system purchased by Indiana Utilities

Pro-Forma Billing System Maintenance Expense	\$ 2,111
Less: Test Year Expense	-

Annual Maintenance Adjustment - Increase / (Decrease)	\$ 2,111
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Total Adjustment to "Administrative & General" Expense - Increase / (Decrease)	\$ (24,860)
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INDIANA UTILITIES CORPORATION  
Corydon, Indiana

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(5) DEPRECIATION EXPENSE ADJUSTMENT

To adjust "Depreciation Expense" to reflect current plant in service.

Transmission & Distribution Plant In Service @ 9/30/08	\$ 7,361,580	
Less: Fully Depreciated	<u>(289,577)</u>	
Sub Total	7,072,003	
Depreciation Rate	<u>3%</u>	
	\$	212,160
Building Structures & Improvements @ 9/30/2008	\$ 182,916	
Less: Fully Depreciated	<u>(61,500)</u>	
Sub Total	121,416	
Depreciation Rate	<u>3%</u>	
		3,642
Transportation and Computer Equipment @ 9/30/2008	483,425	
Plus: Additions from Rate Base Schedule	-	
Less: Fully Depreciated	<u>(207,546)</u>	
Sub Total	275,879	
Depreciation Rate	<u>20%</u>	
		55,176
All Other General Plant @ 9/30/2008	390,111	
Less: Fully Depreciated	<u>(112,679)</u>	
Sub Total	277,432	
Depreciation Rate	<u>5%</u>	
		13,872
Total Pro-Forma Depreciation Expense		284,850
Less: Test Year Depreciation Expense		<u>(226,814)</u>
Adjustment - Increase / (Decrease) in Depreciation Expense		<u>\$ 58,036</u>

**INDIANA UTILITIES CORPORATION**  
Corydon, Indiana

**DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS**

**(6) TAXES OTHER THAN INCOME TAX ADJUSTMENTS**

(a)

To adjust "Taxes Other Than Income Tax" for increase  
in FICA Taxes due to payroll increase.

**FICA Taxes:**

Payroll Wage Increase Subject To FICA Limits	\$	48,161	
FICA Tax Rate		<u>7.65%</u>	
Increase / (Decrease) in FICA Taxes			<u>\$ 3,684</u>

(b)

To adjust "Taxes Other Than Income Tax" for Increased  
cost of property taxes for 2008

**Property Tax:**

DLGF Plant Factor per March 2008 filing Plus Plant Additions	\$	3,446,898	
Weighted Tax Rate - Test Year	0.015750		
Pro-Forma Property Tax Rate		<u>0.015750</u>	
Pro-Forma Property Tax at Present Rates		54,289	
Less: Test Year Property Tax Expense		<u>38,776</u>	
Increase / (Decrease) in Property Tax Expense			<u>\$ 15,513</u>

(c)

To adjust "Taxes Other Than Income Taxes" to reflect changes  
in applicable revenues for Utility Receipts Tax.

**Utility Receipts Tax:**

Utility Receipts	\$	1,662,335	
Less: Exemption		1,000	
Bad debts		<u>13,642</u>	
Utility Receipts Subject to Utility Receipts Tax		1,647,693	
Applicable Utility Receipts Tax Rate		<u>1.40%</u>	
Pro-Forma at Present Rates	\$	23,068	
Less: Test Year Expense		<u>75,066</u>	
Adjustment - Increase / (Decrease) in State Utility Receipt Tax Expense			<u>\$ (51,998)</u>
Adjustment - Increase / (Decrease) in Taxes Other Than Income Taxes			<u>\$ (32,801)</u>

INDIANA UTILITIES CORPORATION  
Corydon, Indiana

DETAIL OF PRO-FORMA PRESENT RATE ADJUSTMENTS

(7) INCOME TAX ADJUSTMENTS

To adjust "Income Tax" to reflect changes in  
Revenues and Expenses.

(a)

State Income Tax:

State Taxable Income	\$ 332,943
Plus: Utility Receipts Tax	23,068
Less: Synchronized Interest	(23,965)
	<u>332,046</u>
Applicable State Income Tax Rate	8.50%

Pro-Forma at Present Rates	\$ 28,224
Less: Test Year Expense	<u>36,313</u>

Adjustment - Increase / (Decrease) in State Income  
Tax Expense \$ (8,089)

(b)

Federal Income Tax:

Net Operating Income before Federal Tax and State Income Tax.	\$ 332,943
Less:	
Adjusted State Income Tax (Adj. 7a)	(28,224)
Synchronized Interest	<u>(23,965)</u>
Federal Taxable Income	280,754
Federal Taxable Rate	<u>34%</u>
Adjusted Federal Income Tax Expense	\$ 95,456
Less: Investment Tax Credit	<u>(1,800)</u>
Adjusted Federal Income Tax Expense	93,656
Less: Test Year Federal Income Tax	<u>148,957</u>

Adjustment - Increase / (Decrease) in Federal Income Tax Expense \$ (53,501)

Adjustment - Increase / (Decrease) Income Taxes \$ (61,590)

INDIANA UTILITIES CORPORATION  
Corydon, Indiana

DETAIL OF PRO-FORMA PROPOSED RATE ADJUSTMENTS

(A)

To adjust "Operating Revenues" to reflect proposed revenue increase.

Proforma Sales of Gas at present rates - Schedule C-3	\$ 6,187,759
Requested rate increase	<u>5.85%</u>
Adjustment - Increase / (Decrease)	<u>\$ 361,712</u>

(B)

To adjust "Other Operation and Maintenance" expense to reflect increase in IURC fee.

Proposed Revenue Increase	\$ 361,712
Current effective IURC fee rate	<u>0.12039930%</u>
Adjustment - Increase / (Decrease)	\$ 435

(C)

To adjust "Administrative and General Expense" to reflect increase in bad debts

Increase in Revenue Requested	\$ 361,712
Current Effective Rate	<u>0.002547</u>
Adjustment - Increase / (Decrease)	<u>921</u>
Total Increase in Other Operation and Maintenance	<u>\$ 1,356</u>

INDIANA UTILITIES CORPORATION  
Corydon, Indiana

DETAIL OF PRO-FORMA PROPOSED RATE ADJUSTMENTS

(D)

To adjust "Taxes Other Than Income Tax"  
to reflect pro-forma changes in revenues and expenses.

Utility Receipts Tax

Proposed Revenue Increase	\$	361,712	
Less: Increase in Bad Debts		(921)	
Receipts subject to Tax		<u>360,791</u>	
Applicable Utility Receipts Tax Rate		<u>1.4%</u>	
Adjustment - Increase / (Decrease)			<u>\$ 5,064</u>

(E)

To adjust "Income Taxes" to reflect pro-forma  
changes in revenues and expenses.

State Income Tax:

Proposed Revenue Increase	\$	361,712	
Less: Increase in IURC Fee		(435)	
Increase in Bad Debts		<u>(921)</u>	
Taxable Increase		360,356	
Applicable Income Tax Rate		<u>8.50%</u>	
Adjustment - Increase			<u>\$ 30,630</u>

INDIANA UTILITIES CORPORATION  
Corydon, Indiana

DETAIL OF PRO-FORMA PROPOSED RATE ADJUSTMENTS

(E) Continued

Federal Income Tax:

Proposed Revenue Increase	\$ 361,712
Less: Increase in IURC Fee	(435)
Increase in Utility Receipts Tax	(5,064)
Increase in Bad Debts	(921)
Increase in State Income Tax	<u>(30,630)</u>
Federal taxable income increase	324,662
Applicable tax rate	<u>34%</u>

Adjustment-Increase \$ 110,385

Total Increase / (Decrease) to Income Tax \$ 141,015

SCHEDULE C-3

INDIANA UTILITIES CORPORATION

Corydon, Indiana

TOTAL BILLED REVENUE CALCULATION

Estimated Volume of Gas Purchased - DTH	439,033
Estimated Base Cost of Gas for GCA	<u>\$ 10.31</u>
Estimated Cost of Gas To Be Included in Revenues	4,525,424
Pro-Forma Present Rate Gas Sales Revenue	<u>1,662,335</u>
Total Revenue Including Gas Costs	6,187,759
Requested Percentage Increase	<u>5.85%</u>
Revenue Adjustment Requested	<u><u>\$ 361,712</u></u>

## EXHIBIT D

INDIANA UTILITIES CORPORATION  
Corydon, Indiana

## ORIGINAL COST RATE BASE

Utility Plant In Service As Of September 30, 2008		\$ 8,437,019
Less: Accumulated Depreciation		<u>(3,697,652)</u>
Net Utility Plant in Service		4,739,367
Plus:		
Working Capital	\$ 955,111 /8	119,389
Materials and Supplies		<u>32,011</u>
Total Original Cost Rate Base		<u>\$ 4,890,767</u>
Net Operating Income Authorized		<u>\$ 423,540</u>



## EXHIBIT E

**INDIANA UTILITIES CORPORATION**  
**Corydon, Indiana**

**CAPITAL STRUCTURE**  
**As of December 31, 2007**

Description	Amount	Percent of Total	Cost	Weighted Cost
Common Equity	\$7,701,673	79.04%	10.30%	8.14%
Customer Deposits	62,931	0.65%	5.00%	0.03%
Long Term Debt	750,000	7.70%	6.00%	0.46%
Post ITC	33,534	0.34%	9.89%	0.03%
Deferred Tax	<u>1,196,023</u>	<u>12.27%</u>	0.00%	<u>0.00%</u>
Total	<u>\$9,744,161</u>	<u>100.00%</u>		<u>8.66%</u>

SCHEDULE E-1

INDIANA UTILITIES CORPORATION

Corydon, Indiana

**CALCULATION OF POST-1970 ITC RATE**

As of December 31, 2007

<u>Description</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
Common Equity	\$7,701,673	90.45%	10.30%	9.32%
Long Term Debt	750,000	8.81%	6.00%	0.53%
Customer Deposits	<u>62,931</u>	<u>0.74%</u>	5.00%	<u>0.04%</u>
Total	<u>\$8,514,604</u>	<u>100.00%</u>		<u>9.89%</u>

## SCHEDULE E-2

INDIANA UTILITIES CORPORATION

Corydon, Indiana

## CALCULATION OF SYNCHRONIZED INTEREST

As of December 31, 2007

Description	Amount	Percent of Total	Cost	Weighted Cost	Weighted Cost of Debt
Common Equity	\$7,701,673	79.31%	10.30%	8.17%	0.00%
Long Term Debt - New	750,000	7.72%	6.00%	0.46%	0.46%
Customer Deposits	62,931	0.65%	5.00%	0.03%	0.03%
Deferred Tax	<u>1,196,023</u>	<u>12.32%</u>	0.00%	<u>0.00%</u>	<u>0.00%</u>
Total	<u>\$9,710,627</u>	<u>87.68%</u>		<u>8.66%</u>	<u>0.49%</u>

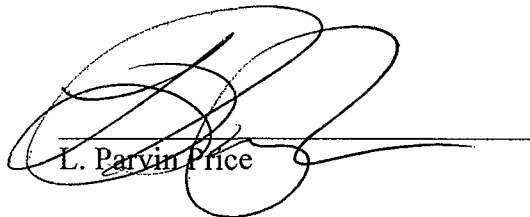
Rate Base \$4,890,767

Weighted Cost of Debt 0.49%Synchronized Interest \$23,965

**CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing has been served upon the following electronically this 14th day of November 2008:

Leja Courter  
Indiana Office of Utility Consumer Counselor  
115 West Washington Street, Suite 1500 South  
Indianapolis, IN 46204



L. Parvin Price

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